
600 AUDIT REQUIREMENTS AND OPI MONITORING

AUDIT COSTS

Audit costs are paid by the entity being audited. The cost of an audit required by the federal “Single Audit Act” may be charged as a direct or indirect cost to federal programs if the entity spent at least \$500,000 of federal assistance, including USDA commodities, during the year being audited. If the entity did not spend at least \$500,000 in federal assistance for a year, the audit costs cannot be charged directly or indirectly to federal programs.

ACCESS TO RECORDS

The awarding federal agency and the OPI as the sub-grantor, or an authorized representative of either the federal agency or the OPI, shall have access to any documents and records of a sub-grantee which are pertinent to the grant as necessary for audit, examination and review.

STATE AUDIT REQUIREMENTS

Recipients of state and federal funds are responsible for complying with audit regulations.

Montana school districts and related cooperatives are required by state law to be audited for each year the combined revenues of all funds of the entity total \$200,000 or more. Audits must be performed at least every two years; however, annual audits are encouraged. Districts and cooperatives which do not receive \$200,000 of total revenues per year must have an auditor perform a financial review at least once every four years, based on a schedule prepared by the OPI (2-7-503, MCA).

School-related cooperatives and consortia which have a school district host (or “prime applicant”) must be audited along with the district which provides administrative services to the cooperative. Cooperatives and consortia which do not use a school district as a host are responsible for contracting for their own audit to ensure compliance with state and federal audit laws and regulations.

FEDERAL AUDIT REQUIREMENTS

Federal audit regulations (OMB Circular A-133) state:

1. The grantor or sub-grantor (e.g., OPI) must monitor sub-grantees to ensure they comply with federal audit requirements;
2. State or local governments (including school districts) or nonprofit entities which spend more than \$500,000 of federal funds in a fiscal year must have an audit performed;
3. The audit must be done by an independent auditor in accordance with generally accepted auditing standards covering financial compliance audits;
4. The sub-grantor (OPI) must review the audit report and the recipient’s responses to any audit findings listed in the report. The sub-grantor must follow up to ensure: a) the recipient resolves the audit findings; and b) any corrective action promised in the entity’s response to the audit finding is implemented.

AUDIT DEADLINES

School districts and related cooperatives (including consortia) must follow state audit requirements in Section 2-7-503, MCA:

- Nonfederal audits (i.e., not subject to OMB Circular A-133 guidelines) must commence no later than nine months after the close of the fiscal year, which means audits must be started by April 1. The audit report must be completed and submitted to the OPI within one year of the close of the year, or by the following June 30. The entity's written response to the audit findings, including necessary corrective action plans, should be submitted within the audit report. If the response is not included in the report, it must be submitted to the Department of Administration and the OPI within 30 days after the audit report was issued (ARM 8.94.4109).
- Federal audits (i.e., subject to OMB Circular A-133 requirements) must be completed and submitted to the OPI within nine months of the close of the fiscal year, or by March 31. Annual audits are required unless two-year audits have been approved by the Department of Administration. The entity's written response to the audit findings, including necessary corrective action plans, should be submitted within the audit report. If the response is not included in the report, it must be submitted to the Department of Administration and the OPI within 30 days after the audit report was issued (ARM 8.94.4109).

Waiver of Deadline for Federal (A-133) Audits: If the March 31 deadline cannot be met, the school district or cooperative must request an extension from the U.S. Department of Education. The request should:

1. be on letterhead stationery;
2. include a brief explanation why the March 31 due date cannot be met; and
3. request an extension to a specific date on which the audit will be submitted.

The request may be mailed, faxed or emailed to:

Pat Dever
U.S. Department of Education
FB-6 Room 4W215
400 Maryland Ave SW
Washington DC 20202-4245
Email address: pat_dever@ed.gov

Please send a copy of the request for an extension and copy of the waiver to the OPI Budget and Accounting Division and the Department of Administration.

Nonpublic entities which receive federal money from the OPI are subject to federal audit requirements in OMB Circular A-133 if the entity spends more than \$500,000 of federal assistance during the year. If the entity does not spend over that amount, the entity is not subject to audit requirements unless specified by other sub-grantors.

Federal audits (i.e., subject to OMB Circular A-133 requirements) must be completed and submitted to the OPI within nine months of the close of the entity's fiscal year. The entity's written response to the audit findings, including necessary corrective action plans, should be submitted within the audit report. If the response is not included in the report, it must be submitted to the OPI within 30 days after the audit report was issued.

FAILURE TO RESOLVE AUDIT FINDINGS

Recipients of federal and state moneys are responsible for correcting problems discovered during the audit process. Correction of audit findings is a very important step in the audit process. Timely and appropriate corrective action ensures continued eligibility for funding under state and federal programs.

The school district or consortium/cooperative must submit to the OPI a written response to audit findings within 30 days after receiving the audit report. The response must list a corrective action plan addressing each audit finding or questioned cost listed in the report. If the response is not clear, the OPI may request additional information or additional corrective action plans from the district or consortium/cooperative.

The OPI will notify the Department of Administration if the response is acceptable. If the response is not acceptable, the OPI will state the reason(s) and what action is needed by the auditee in order to make the response or corrective action plan acceptable. The Department of Administration will notify the school district or cooperative/consortium that the response is accepted or that additional action is required. After receiving a notice stating the response or corrective action plan is not acceptable, the audited entity must resubmit an acceptable response or corrective action plan to the Department of Administration and the OPI within 30 days.

Within that 30 days, if the auditee feels the action, response, or corrective action required by the OPI is not in accordance with state or federal laws or regulations, the auditee may submit a written request for hearing (see Section 200 in this manual).

After 30 days, if the auditee did not request a hearing and the response is still not sufficient, the Department of Administration may order state agencies to withhold state funding from the auditee pending receipt of an acceptable response or corrective action plan. Money withheld will be released upon written order of the Department of Administration after the acceptable response is received (ARM 8.94.4109).

FAILURE TO SUBMIT AUDITS

Compliance with federal and state laws, regulations, and audit requirements is the responsibility of the sub-grantee. School districts and other nonpublic sub-grantees, including cooperatives, of the OPI-administered programs must comply with federal OMB Circular A-133 or state audit requirements that apply to them.

In cases of subrecipients' failure to submit to an audit in compliance with A-133 or to resolve audit findings, the OPI will take appropriate actions such as: (A-133 §__.229)

- a. Withholding some or all of the federal awards until the audit is completed satisfactorily;
- b. Suspending cash disbursements for federal awards until the audit is conducted; and/or
- c. Terminating the federal award(s).

In cases of subrecipients' failure to submit to an audit in compliance with state law or to resolve audit findings, the OPI will take appropriate action such as:

- a. Withholding some or all of the federal awards until the audit is completed satisfactorily;
- b. Suspending cash disbursements for federal awards until the audit is conducted;
- c. Terminating the federal award(s);
- d. Notifying the Board of Public Education of the school district's or cooperative's failure to

- comply with audit requirements;
- e. Requesting the Board of Public Education to require the entity's management to appear before the Board to discuss the noncompliance and planned corrective action; and/or
- f. Requesting the Board of Public Education to order withholding of the district's state funding received from the OPI until the audit report is completed satisfactorily.

OFFICE OF PUBLIC INSTRUCTION MONITORING PROCEDURES

The OPI is a "pass-through entity," meaning the OPI provides federal awards to sub-grantees to carry out federal programs. As a pass-through entity, federal regulations require the OPI to monitor sub-grant-supported activities.

Monitoring procedures are performed to ensure that:

1. Federal awards are used for authorized purposes in compliance with laws, regulations and provisions of grant agreements; and
2. Performance goals are being achieved.

The monitoring procedures performed by the Office of Public Instruction will take into consideration the cost-effectiveness of a particular procedure, compared to the relative size and complexity of the federal award(s) administered by a sub-grantee.

Routine Monitoring Procedures

The routine monitoring procedures performed by the OPI for all sub-grantees include a review of:

1. Final Program Reports—Unless waived by the OPI, an annual program report is required for each federal and state grant award a sub-grantee receives. The OPI will provide appropriate forms to programs requiring reports.
2. Fiscal Closeout Reports—An annual fiscal closeout report is always required for each state and federal award a sub-grantee receives. The OPI will provide a Fiscal Closeout Report form for this purpose. This report provides information to allow:
 - a. A comparison of actual expenditures to approved budgets for direct costs, indirect costs and equipment.
 - b. A reconciliation of cash advances/reimbursements to expenditures/refunds.
3. Sub-grantee Audit/Review Reports—Section 2-7-503, MCA, requires a sub-grantee must send one copy of its audit/review report to the OPI (see "AUDIT DEADLINES" earlier in this section).

In addition to the above monitoring procedures, the OPI implements monitoring procedures in accordance with federal and state plan requirements. These requirements may differ across federal programs.

"Risk" Categories for Sub-grantees

The OPI routinely monitors sub-grantees to identify those at risk of noncompliance with federal laws, regulations and grant award provisions.

A sub-grantee is considered to be a “low risk” for noncompliance if the sub-grantee:

1. Receives an unqualified audit opinion, or a qualified opinion without scope limitation;
2. Has no material weaknesses in internal controls;
3. Has had no instances of noncompliance with federal laws, regulations and grant agreements;
4. Has had no material questioned costs; and
5. Has conformed to the terms and conditions of previous awards, including timely submission of required fiscal and program reports.

“Low-risk” sub-grantees are required to submit to the OPI the Fiscal Closeout Report, the Final Program Report, unless waived by the OPI, and an audit/review report.

A sub-grantee is considered to be “high risk” if the sub-grantee:

1. Has a history of unsatisfactory performance;
2. Is not financially stable;
3. Has a management system which does not meet the management standards set forth by the federal government;
4. Has not conformed to terms and conditions of previous awards, including timely submission of required fiscal and program reports.; or
5. Is otherwise not responsible; and if the awarding agency determines that an award will be made, special conditions and/or restrictions shall correspond to the high risk condition and shall be included in the award.

The OPI may apply special conditions and/or restrictions to grants that are awarded to “high-risk” sub-grantees. Such special conditions and restrictions will correspond to the risk condition that exists for a particular sub-grantee and may include: (CFR 34, Part 80.12)

1. Payment on a reimbursement, rather than advance, basis;
2. Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given funding period;
3. Additional more detailed financial and/or program reports;
4. Additional project monitoring;
5. Requiring the subgrantee to obtain additional technical or management assistance; and/or
6. Additional prior approvals.

Prior to imposing special conditions or restrictions, the OPI will notify the sub-grantee in writing of:

1. The nature of the special conditions/restrictions;
2. The reason(s) for imposing them;
3. Corrective actions which must be taken before the special conditions or restrictions will be removed and the time allowed for completing the corrective actions; and
4. The method whereby a sub-grantee may request reconsideration of the conditions/restrictions imposed.

Enforcement Actions for Noncompliance

If the OPI determines that a sub-grantee has failed to comply with the terms of an award, including any special conditions or restrictions, the OPI may take one or more of the following enforcement actions as appropriate in the circumstances:

1. Temporarily withhold cash payments to the sub-grantee pending correction of the deficiency;
2. Disallow all or part of the cost of the activity or action not in compliance;
3. Wholly or partly suspend or terminate the current award for the sub-grantee's program;
4. Withhold further awards for the sub-grantee's program; or
5. Take other remedies that may be legally available.